

THE HEARTLAND GROUP

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS  
SCHEDULE OF FINDINGS

JUNE 30, 2008

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THE HEARTLAND GROUP

TABLE OF CONTENTS  
JUNE 30, 2008

	<u>PAGE</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
<u>FINANCIAL STATEMENT:</u>	<u>EXHIBIT</u>
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS	A 3
NOTES TO FINANCIAL STATEMENT	4-6
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	7-8
SCHEDULE OF FINDINGS	9

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THE HEARTLAND GROUP

OFFICIALS  
JUNE 30, 2008

<u>Name</u>	<u>Title</u>
Steve Siegel	Chairperson
Mike Pech	Treasurer

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Heartland Group

We have audited the accompanying statement of cash receipts, disbursements and changes in net assets of The Heartland Group, as of and for the year ended June 30, 2008. This financial statement is the responsibility of The Heartland Group's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of The Heartland Group as of June 30, 2008, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2008 on our consideration of The Heartland Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

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ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
December 18, 2008



THE HEARTLAND GROUP

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN NET ASSETS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

OPERATING RECEIPTS:

Facility rent payments	\$ <u>102,000</u>
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OPERATING DISBURSEMENTS:

Insurance	8,144
Professional fees	1,900
Capital improvements	20,061
Repairs and maintenance	15,956
Miscellaneous	<u>20</u>
Total operating disbursements	<u>46,081</u>

Excess of operating receipts over operating disbursements	55,919
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## Non-operating receipts:

Interest income	<u>1,477</u>
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Change in unrestricted cash basis net assets	57,396
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Unrestricted cash basis net assets - Beginning of year	87,046
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Distribution to Washington County	<u>(14,810)</u>
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Unrestricted cash basis net assets - End of year	\$ <u>129,632</u>
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## THE HEARTLAND GROUP

### NOTES TO FINANCIAL STATEMENT

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Heartland Group is a public authority established March 11, 1993, under a 28E agreement by a multi-county government consisting of Jefferson, Keokuk, Lucas and Wapello Counties. The Heartland Group operates under the Board of Directors' control and provides services to citizens in a four-county area. Services are provided to other counties depending on availability of units. Program services consist primarily of a 45-bed inpatient unit for persons with persistent and severe mental illness. The program is designed to assist residents to reach and maintain their maximum level of functioning and live their lives with dignity and respect.

In accordance with the 2008 Management Agreement between The Heartland Group and Hillcrest Family Services, Inc., (an Iowa non-profit corporation), the responsibility for the day to day operations of the facility shall be the administrative function of Hillcrest Family Services, Inc., as well as the continued licensing and adherence with all rules, standards and regulations promulgated by the Iowa Department of Inspections and Appeals and the Department of Human Services.

#### Reporting Entity

The financial statements include all funds of The Heartland Group. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes.

#### Fund Accounting

The accounts of The Heartland Group are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The Heartland Group uses the following fund in its activities:

Operating Fund – The operating fund is the general operating fund of The Heartland Group. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not required to be paid through other types of funds.

#### Basis of Presentation

The Heartland Group maintains its financial records on the basis of cash receipts and disbursements and the financial statement of The Heartland Group is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items.

Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with generally accepted accounting principles.

#### NOTE 2: INSURED DEPOSITS

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2008, the Organization had deposits of \$29,835 in excess of federally insured limits.

#### NOTE 3: RISK MANAGEMENT

The Heartland Group reimburses Wapello County, Iowa for premiums paid to the Iowa Communities Assurance Pool for The Heartland Group's insurance coverage.

Wapello County, Iowa is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed

## THE HEARTLAND GROUP

### NOTES TO FINANCIAL STATEMENT

#### NOTE 3: RISK MANAGEMENT (Continued)

in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Heartland Group's (paid to Wapello County, Iowa) property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Heartland Group's contributions to the Pool for the year ended June 30, 2008 were \$8,144.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Heartland Group does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2008, no liability has been recorded in The Heartland Group's financial statements. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Wapello County, Iowa also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The Heartland Group assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



THE HEARTLAND GROUP

NOTES TO FINANCIAL STATEMENT

NOTE 4: MAJOR REVENUE SOURCE

The Heartland Group receives all of its operating receipts from Hillcrest Family Services, Inc.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

To the Board of Directors of  
The Heartland Group

We have audited the financial statements of the The Heartland Group, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Heartland Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Heartland Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Heartland Group's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The Heartland Group's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The Heartland Group's financial statements that is more than inconsequential will not be prevented or detected by The Heartland Group's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The Heartland Group's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Heartland Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the The Heartland Group and other parties to whom The Heartland Group may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the The Heartland Group during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
December 18, 2008

THE HEARTLAND GROUP

SCHEDULE OF FINDINGS

JUNE 30, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

No matters were noted.

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

No matters were noted.